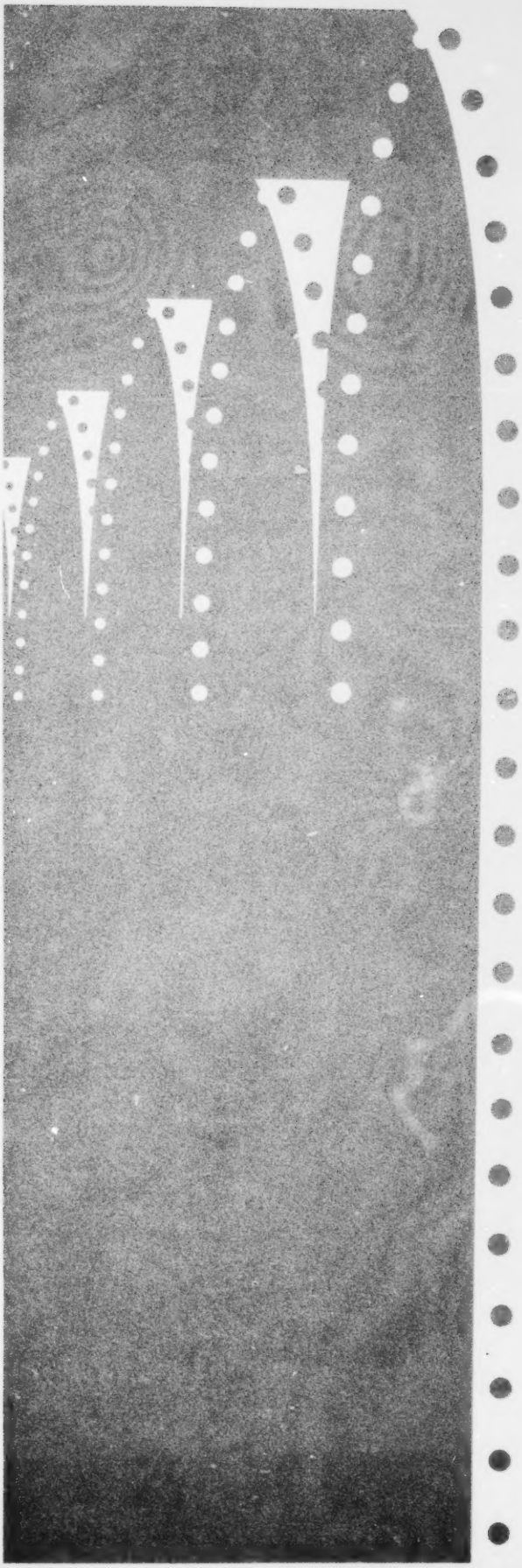

1988-89 FINANCIAL REPORT

Gilbert R. Clements
Minister of Finance

Prince Edward Island
November 1989

90-02138/

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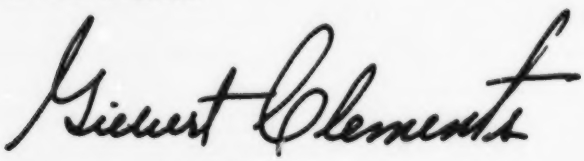
MINISTER'S STATEMENT

In keeping with the Government's commitment to improve public knowledge on the state of the provincial finances we have decided to produce a financial statement in the Fall of each year. It is thus with much pleasure that I present the 1988-89 Financial Report of the Province of Prince Edward Island. The report highlights the major aspects of Prince Edward Island's finances and presents summarized financial statements of the Province for the fiscal year ended March 31, 1989. The report also discusses the economic situation in 1988-89. The 1988-89 Public Accounts will be submitted to the Prince Edward Island Legislature in the next session as usual with complete and detailed information on our finances.

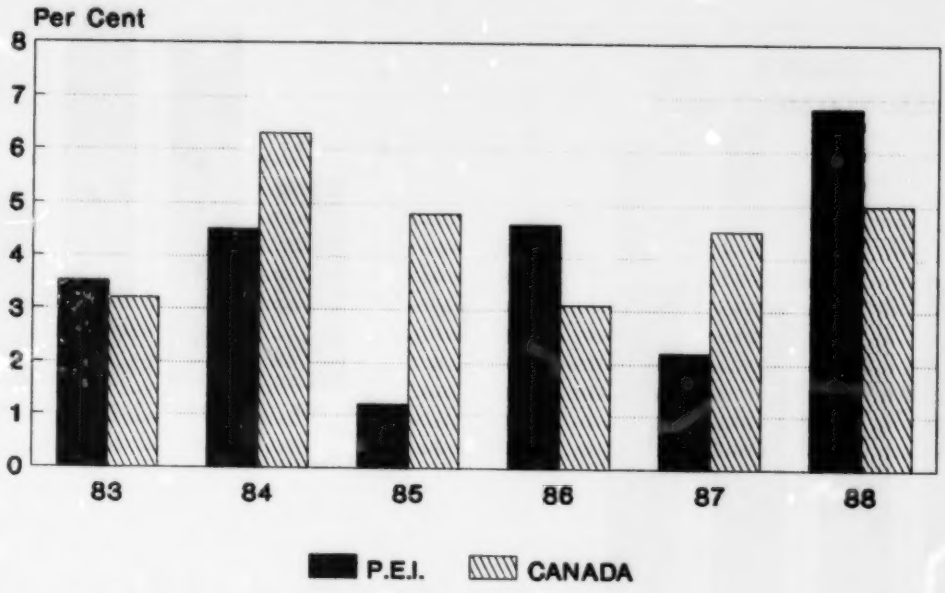


Gilbert R. Clements
Minister of Finance

November 1989

THE ECONOMY

Graph 1
ECONOMIC GROWTH

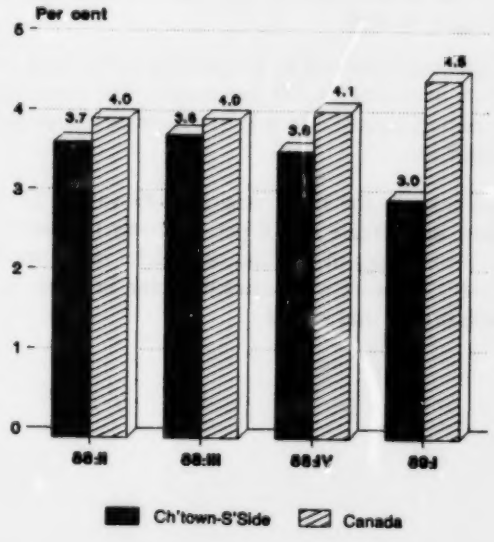


Source: Conference Board of Canada

The Prince Edward Island economy continued to grow strongly in 1988 from increased construction, gains in tourism, record lobster landings, and significant employment growth.

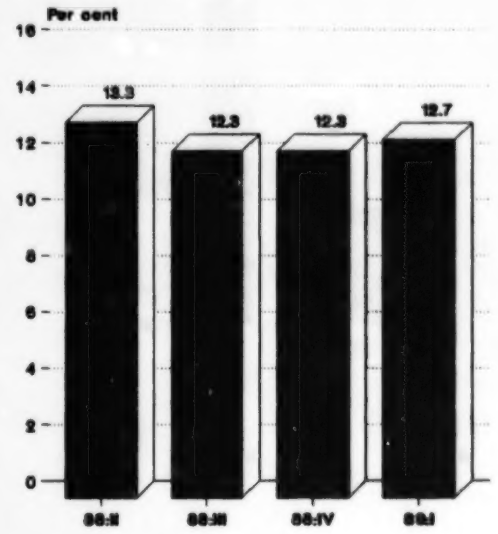
Estimates of growth in the economy in constant dollars as measured by Gross Domestic Product indicate that the Island economy expanded by 6.5 per cent in 1988. This compares to a 5.0 per cent increase for Canada in total.

Graph 2
INFLATION RATE



The rate of increase in the consumer price index for Charlottetown-Summerside was 3.5 per cent in 1988-89. This rate is significantly lower than the national rate of 4.1 per cent during this period. The major reasons for the lower rate were in transportation and energy costs.

Graph 3
UNEMPLOYMENT RATE

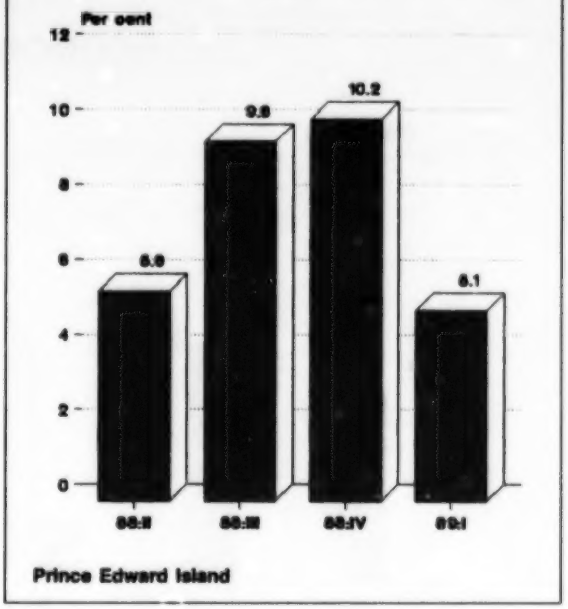


The average seasonally adjusted unemployment rate for the fiscal year 1988-89 was 12.6 per cent. This compares to 13.3 per cent in 1987-88. The rate was trending down until January 1989.

Employment expanded by 3.5 per cent in the fiscal year 1988-89 averaging 54,000 per month. The continuing high unemployment is largely due to rising labour force participation.

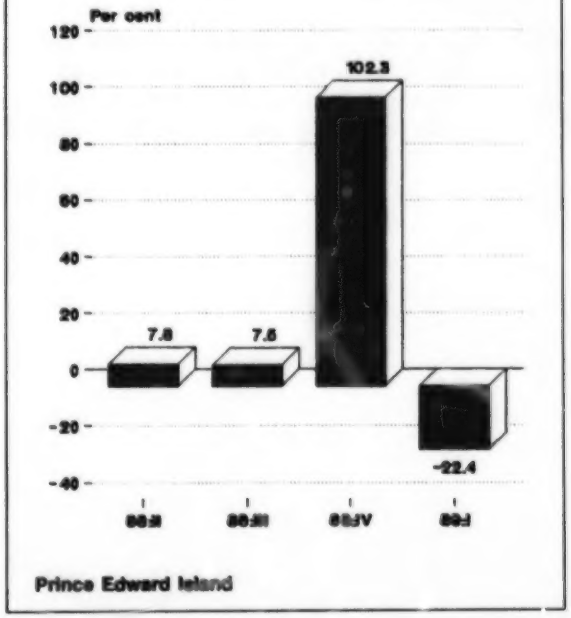
Retail sales in the fiscal year 1988-89 valued $710.6 million, an increase of 7.8 per cent over the previous year. Strong sales of new motor vehicles in the second half of 1988 were a significant factor in retail sales growth during that period.

Graph 4
RETAIL SALES GROWTH



Housing starts rose in the fiscal year 1988-89 to a level of 1,127, an 18.5 per cent increase over the previous year. Residential construction activity in Prince Edward Island has slowed in the first quarter of 1989.

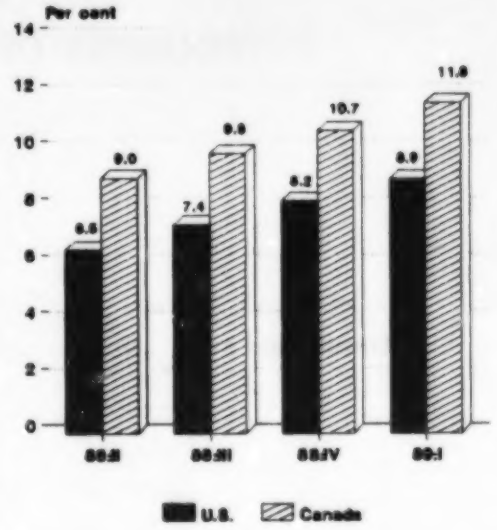
Graph 5
HOUSING STARTS



Interest rates in both Canada and the United States rose steadily during the fiscal year 1988-89. The 3-month Canadian Treasury Bill rate averaged 11.6 per cent in the first quarter of 1989 compared to 9.0 per cent in the second quarter of 1988. Canada - U.S. interest rate differentials average 2.5 percentage points over the period.

Graph 6

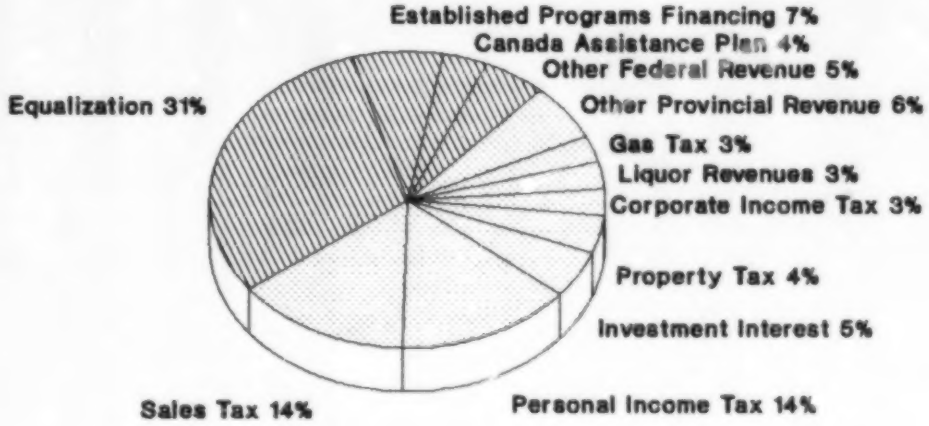
INTEREST RATES



3 Month Treasury Bills

REVENUE

Graph 7
SOURCES OF REVENUE, 1988-89



Current account revenue for 1988-89 was $600.3 million. The major sources of revenue and their respective percentages are shown in Graph 7. Revenue exceeded the Budget estimate by $22.7 million. Slightly more than half of this increase was from adjustments to provincial source revenue. A comparison with the original Budget is shown below in Table 1.

Table 1 Performance of Major Revenues 1988-89

	Budget ($000)	Actual ($000)	Variance ($000)
Provincial Source:			
Personal Income Tax	76,950	86,495	+ 9,545
Sales Tax	86,000	85,912	- 88
Investment Interest	29,744	31,402	+ 1,658
Property Tax	23,300	24,336	+ 1,036
Other	89,353	90,268	+ 916
	305,347	318,414	+13,067
Government of Canada:			
Equalization	169,000	184,858	+15,858
E.P.F.	48,100	44,272	- 3,828
Canada Assistance Plan	24,006	21,902	- 2,104
Other	31,145	30,874	- 271
	272,251	281,906	+ 9,655
Total	577,598	600,320	+22,722

Provincial Source Revenue

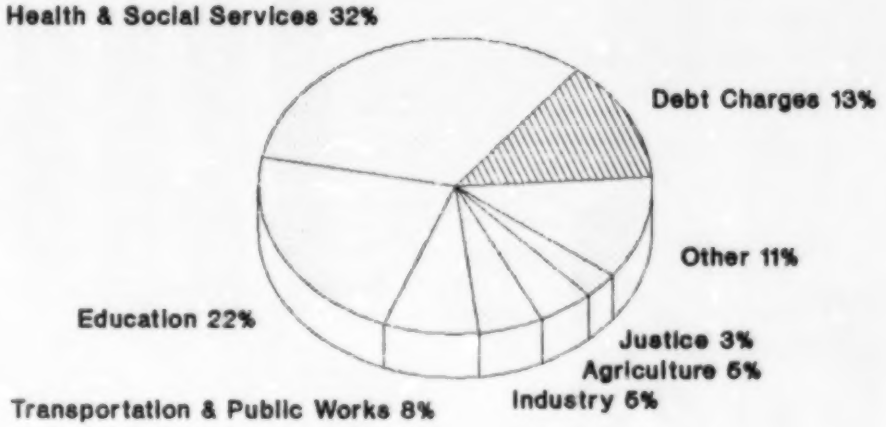
Provincial source revenue was $318.4 million, representing 53.0 per cent of total current account revenue. The increase of $22.7 million from Budget estimate was largely due to Personal Income Tax revenue being $9.5 million higher than originally estimated. Investment interest was also $1.7 million more than Budget.

Government of Canada Revenue

Total payments of $281.9 million accounted for 47.0 per cent of total current account revenue. The Equalization transfer, at $184.9 million, represents the largest single revenue source of the Province. It was $15.9 million above Budget largely because of stronger economic conditions in Canada as well as increased entitlements under the corporate tax base. The increase in Equalization revenue was partially offset by a $3.8 million decrease in the Established Programs Financing transfer and a $2.1 million decline in payments received under the Canada Assistance Plan, as compared to the Budget estimate.

EXPENDITURE

Graph 8
EXPENDITURE by DEPARTMENT, 1988-89

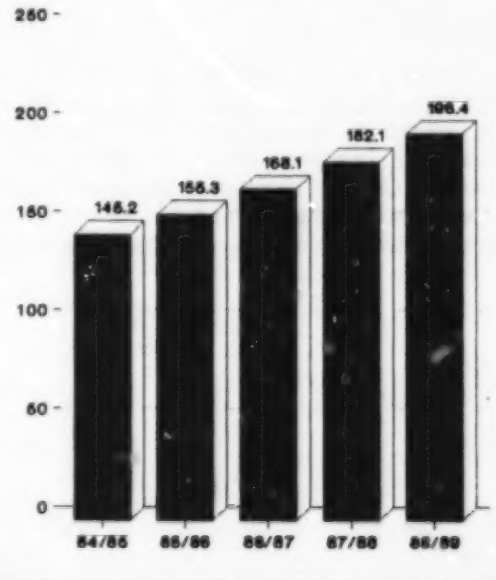


Current account expenditure was $605.1 million in 1988-89, or $21.6 million above the Budget estimate. Approximately $8.5 million of this amount was additional assistance to the hog industry. Net capital expenditures were $36.7 million, which was $1.1 million below Budget. The proportion of current expenditure accounted for by major department is shown in Graph 8.

Departmental Expenditures

The largest department in terms of expenditure was the Department of Health and Social Services with spending of $196.4 million. This represented nearly one-third of the Province's total current account expenditure. Graph 9 shows the five year trend of Health and Social Services expenditure.

Graph 9
HEALTH & SOCIAL SERVICES EXPENDITURE
$ Million



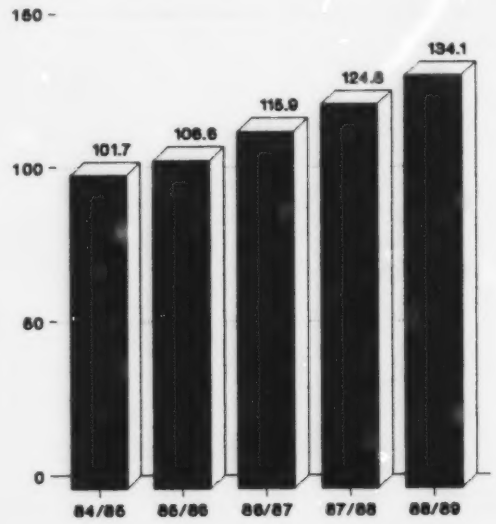
Expenditure of the Department of Education totaled $134.1 million, representing 22 per cent of total current account expenditure. Graph 10 shows the five year trend of Department of Education expenditures. Total expenditures by Education in 1988-89 consisted of:

- $92.5 million (69%) for School Units
- $29.9 million (22%) for Post-Secondary Education
- $ 4.0 million (3%) for Vocational Programming
- $ 7.7 million (6%) for General Department

Graph 10

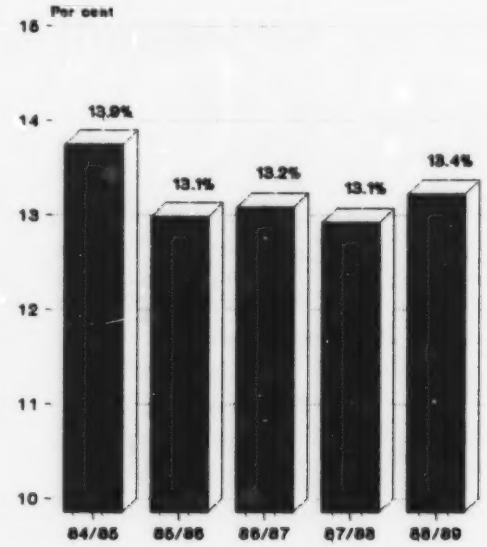
DEPARTMENT OF EDUCATION EXPENDITURE

$ Million



Graph 11

DEBT CHARGES AS % OF EXPENDITURE



Debt Charges

Debt charges were $80.9 million in 1988-89, consisting of $9.5 million in contributions to the Sinking Fund and $71.4 million in interest expenses. Debt charges accounted for 13.4 per cent of total current account expenditure. Graph 11 shows debt charges as a per cent of expenditure over the last five years. As a percentage of revenue, the debt charges were 13.5 per cent in 1988-89.

Capital Expenditures

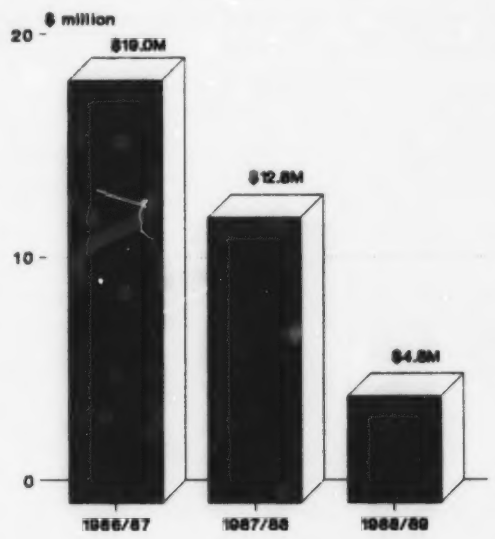
Gross capital expenditures of the Consolidated Fund were $41.3 million in 1988-89, with recoveries (mostly federal) of $4.6 million. Of the total gross expenditure, $33.8 million was for highways, $4.3 million for Young Offenders' facilities, and $3.2 million for other.

DEFICIT

	1987-88 Actual ($000)	1988-89 Budget ($000)	1988-89 Actual ($000)
Current Account			
Revenue	533,231	577,598	600,320
Expenditure	546,011	583,485	605,092
Deficit	12,780	5,887	4,772
Capital Account			
Revenue	5,547	4,179	4,615
Expenditure	36,027	42,029	41,337
Net Capital Expenditure	30,480	37,850	36,722
Sinking Fund			
Sinking Fund Earnings	18,542	22,609	20,636
Contributions from Revenue Fund	8,352	9,069	9,509
Increase in Sinking Fund Assets	26,895	31,678	30,145
Total Deficit	16,365	12,059	11,349

The current account deficit for 1988-89 was $4.8 million, an improvement of $1.1 million from the Budget estimate. Graph 12 depicts the decline in current account deficit over the last three years. The total budgetary deficit, including current account, net capital expenditures and sinking fund, was $11.3 million, or $0.7 million less than budget.

Graph 12
CURRENT ACCOUNT DEFICIT



DEBT

The largest component of Province's gross debt, at March 31, 1989, was debentures and Canada Pension bonds, totaling $612.6 million. The Province provides a sinking fund for repayment of both its Canada Pension and market bonds. Sinking fund assets of $200.7 million resulted in net funded debenture debt of $411.9 million as at March 31, 1989.

Provincial deposit receipts of $52.4 million were the second largest liability of the Province.

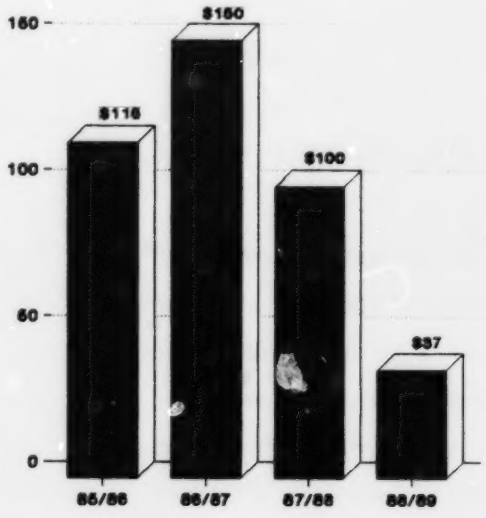
Total net debt (gross debt less total financial assets) of the Province valued $190.7 million at the end of the 1988-89 fiscal year. The Province's debt as a percentage of Gross Domestic Product declined to 11.0 per cent in 1988-89, from 11.2 per cent for the previous year.

Selected Financial and Economic Statistics ($ Thousands)

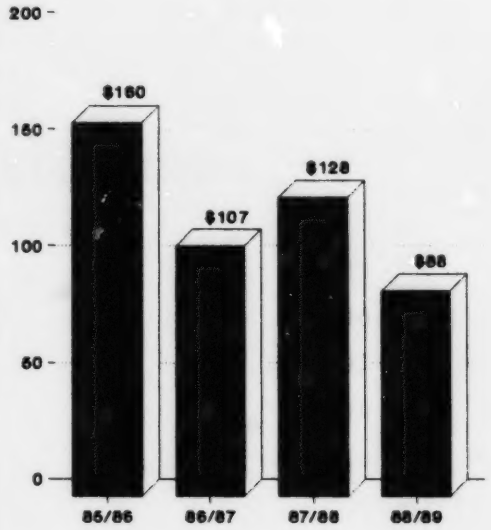
	1985/86	1986/87	1987/88	1988/89
Current Account				
Revenue	457,174	490,914	533,231	600,320
Expenditure	471,627	509,868	546,011	605,092
Deficit	14,453	18,954	12,780	4,772
Capital Account				
Revenue	6,502	5,586	5,547	4,615
Expenditure	34,606	25,397	36,027	41,337
Net Capital Expenditure	28,104	19,811	30,480	36,722
Sinking Fund				
Sinking Fund Earnings	15,156	17,272	18,542	20,636
Installments	7,206	7,908	8,352	9,509
Increase in Sinking Fund	22,362	25,180	26,895	30,145
Total Deficit	20,195	13,585	16,365	11,349
Net Debt	149,424	163,009	179.374	190,723
GDP at Market Prices ($ million)	1,329	1,444	1,608	1,741
Net Debt/GDP (%)	11.2	11.3	11.2	11.0

Provincial Financial Indicators

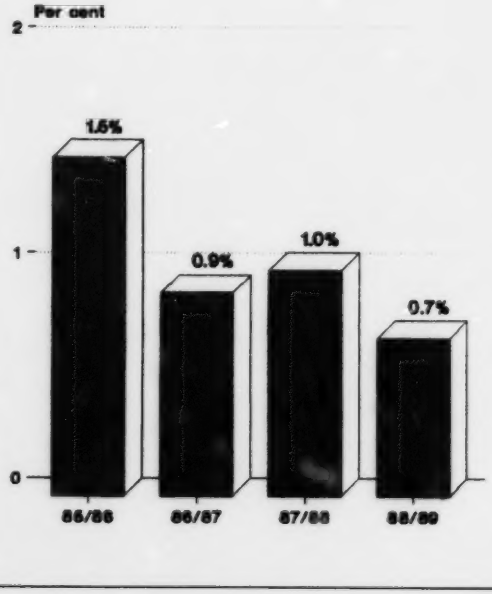
Graph 13
CURRENT ACCOUNT DEFICIT
($ per capita)



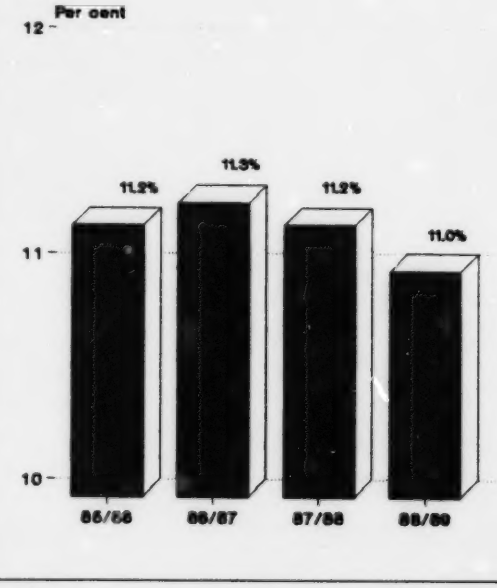
Graph 14
TOTAL DEFICIT
($ per capita)



Graph 15
TOTAL DEFICIT as % of GDP



Graph 16
NET DEBT as % of GDP



1988-89 FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31

Province of Prince Edward Island
Consolidated Fund
($ thousands)

	1987-88 Actual	1988-89 Actual
FINANCIAL ASSETS		
Cash Deposits Short Term	0	31,000
Accounts and Taxes Receivable	46,072	64,249
Treasury Advances	73	103
Inventories	3,609	3,833
Investments	15	15
Loans Receivable	146,094	164,955
Capital Advances	88,696	99,059
Deferred Charges	4,433	7,270
Total Financial Assets	288,992	370,483
Net Debt	179,374	190,723
TOTAL	468,366	561,206
LIABILITIES		
Bank Advances	7,263	12,655
Treasury Loans	6,000	0
Deferred Revenue	3,631	3,050
Accounts Payable	32,709	46,937
Accrued Interest and Other Liabilities	18,819	22,340
Provincial Deposit Receipts	53,356	52,394
Loans Payable	12,208	11,893
Debentures		
Gross Funded	513,866	612,642
Less: Sinking Fund	(179,486)	(200,704)
TOTAL	468,366	561,206

STATEMENT OF FINANCIAL TRANSACTIONS

Province of Prince Edward Island
Consolidated Fund
($ thousands)

	1987-88 Actual	1988-89 Budget	1988-89 Actual
Current Account			
Revenue	533,231	577,598	600,320
Expenditure	546,011	583,485	605,092
Deficit	12,780	5,887	4,772
Capital Account			
Revenue	5,547	4,179	4,615
Expenditure	36,027	42,029	41,337
Net Capital Expenditures	30,480	37,850	36,722
Total Net Expenditures	43,260	43,737	41,494
Non-Cash Items	(1,391)	0	3,211
Net Cash Requirements	41,869	43,737	44,706
Financing			
Debt Transactions	26,883	44,237	70,313
Decrease (Increase) in Cash and Temporary Investments	14,986	(500)	(25,609)
Total Financing	41,869	43,737	44,706

STATEMENT OF CURRENT REVENUE

Province of Prince Edward Island
($ thousands)

	1987-88 Actual	1988-89 Budget	1988-89 Actual
PROVINCIAL SOURCES			
Taxes			
Personal Income Tax	77,419	76,950	86,495
Corporate Income Tax	17,749	18,350	17,646
Sales Tax	76,619	86,000	85,912
Gasoline Tax	17,607	18,000	17,251
Real Property Tax	22,170	23,300	24,336
Health Tax on Liquor	8,547	8,507	8,939
Health Tax on Tobacco	9,848	13,000	12,567
Entertainment Tax	1,352		
Insurance Premium Tax	1,326	1,200	1,515
Fire Prevention Tax	118	100	125
Corporation Capital Tax	0	500	533
	232,755	245,907	255,319
Other Revenue			
Motor Vehicle Registry	3,772	3,800	4,489
Other Licenses and Permits	1,014	1,159	1,118
Patient Fees	6,233	5,980	6,746
Other Fees	4,637	5,126	5,092
Liquor Commission Profits	9,413	9,157	9,401
Lottery Revenue	3,243	3,500	3,673
Other Sales	1,285	974	1,174
Investment Income	26,070	29,744	31,402
Total Provincial Source	288,422	305,347	318,414
FEDERAL SOURCES			
Government of Canada			
Equalization	147,901	169,000	184,858
Established Programs Financing	46,070	48,100	44,272
Extended Health Care	5,937	6,350	6,297
Income Tax on Electricity	3,306	2,500	2,000
Cost Shared Programs	38,377	44,417	42,206
Energy Rebate	1,700		
Other	1,518	1,883	2,273
Total Federal Revenue	244,809	272,250	281,906
Total Revenue	533,231	577,597	600,320

STATEMENT OF CURRENT EXPENDITURES

Province of Prince Edward Island
($ thousands)

	1987-88 Actual	1988-89 Budget	1988-89 Actual
Agriculture	18,466	20,256	28,258
Community & Cultural Affairs	16,482	14,698	16,896
Education	124,760	134,078	134,094
Finance	8,077	8,358	8,578
Tourism & Parks	7,383	7,820	8,171
Legislative Services	3,829	3,850	3,727
Industry	24,057	26,833	32,192
Health & Social Services	182,144	192,289	196,445
Energy & Forestry	12,245	11,195	10,345
Justice & Attorney General	14,032	19,233	17,427
Labour	1,278	1,585	1,496
Fisheries	2,598	2,719	2,526
Transportation & Public Works	47,251	44,829	47,504
Other Current	12,047	16,320	16,519
Debt Charges	71,362	79,422	80,915
Total Expenditures	546,011	583,485	605,092

STATEMENT OF CAPITAL EXPENDITURES

Province of Prince Edward Island
($ thousands)

	1987-88 Actual	1988-89 Budget	1988-89 Actual
HIGHWAYS			
Reconstruction	10,216	13,775	14,905
Paving	15,581	14,531	14,531
Bridges & Culverts	3,003	2,715	2,478
Administration	1,146	1,207	1,161
Equipment & Lighting	1,685	700	727
	31,633	32,929	33,801
BUILDINGS			
Young Offenders Center	2,966	4,306	4,287
Other	288	4,263	2,511
	3,254	8,570	6,798
OTHER CAPITAL ASSETS	1,140	531	737
TOTAL GROSS CAPITAL EXPENDITURES	36,027	42,029	41,337
LESS RECOVERIES			
E.R.D.A.	5,010	3,587	4,017
Other	537	592	597
	5,547	4,179	4,615
NET CAPITAL EXPENDITURES	30,480	37,850	36,722

STATEMENT OF CHANGE IN NET DEBT

Province of Prince Edward Island
($ thousands)

	1987-88 Actual	1988-89 Actual
Net Debt Beginning April 1	163,009	179,374
INCREASED BY:		
Net Capital Expenditures	30,480	36,722
Excess of Ordinary Expenditures Over Ordinary Revenue	12,780	4,772
DECREASED BY:		
Increase in Sinking Fund Assets		
Investment Income	18,542	20,636
Installments	8,352	9,509
	26,895	30,145
NET DEBT	179,374	190,723

STATEMENT OF DEBT TRANSACTIONS

Province of Prince Edward Island
Consolidated Fund
($ thousands)

	1987-88 Actual	1988-89 Actual
Receipts:		
Debentures Issued	50,000	100,000
Canada Pension Loans	10,010	9,703
Provincial Deposit Receipts	4,453	(1,850)
Treasury Notes	6,000	0
Capital Leases	430	0
	70,893	107,853
Payments:		
Debenture Payments	23,342	0
Net Loans to Crown Agencies	10,341	19,789
Capital Advances	7,805	10,206
Treasury Notes	0	6,000
Alberta Heritage Fund	3,000	2,000
Other	(478)	(455)
	44,010	37,540
Debt Transactions (Net)	26,883	70,313

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ACCOUNTING ENTITY

The financial position of the Province is presented by a Statement of Financial Position of the Consolidated Fund of the Province, a Statement of Financial Transactions, a Statement of Current Revenue, a Statement of Current Expenditures, a Statement of Capital Expenditures, a Statement of Change in Net Debt, and a Statement of Debt Transactions.

2. FINANCIAL REPORTING AND ACCOUNTING POLICIES

(a) The financial transactions recorded in the Accounts of the Province and reflected in the Public Accounts are classified into budgetary transactions and non-budgetary transactions.

In general terms budgetary transactions are those which enter into the calculation of the annual budgetary surplus or deficit and are disclosed in the Statement of Revenues and Expenditure - both Capital and Ordinary Revenues and Expenditures are included. Non-Budgetary transactions lead to the acquisition or disposal of financial assets or creation or discharge of financial obligations which are disclosed on the Statement of Financial Position.

(b) The Province's financial statements are presented so as to highlight Net Direct Debt, a measurement of financial position. The Net Direct Debt of the Province is determined by its Liabilities less its listed assets which include capital advances towards the construction of such long term assets as hospitals and schools - title of which is vested with a third party agency or entity (Note 1) - but excludes capital expenditures on such long term assets such as Highways and Public Buildings.

(c) The Province presents revenues and expenditure on the accrual basis except for payments from Canada under the Federal-Provincial Fiscal Arrangements, the Established Programs Financing and the Tax Collection Agreement.

(d) Earnings on sinking funds are credited to sinking fund reserves and are not reflected as current account revenue.

(e) Profits or losses of Crown Corporations are taken into the revenues or expenditures of the Consolidated Fund in the year in which they become apparent unless the Lieutenant Governor-in-Council declares by Minute-in-Council that the profit is to be retained or the loss recouped by the Crown Corporation. Profits and losses of the Crown Corporations, Agencies and Boards which are not consolidated in 1988-89 are noted below (see Note 2).

(f) The province has three pension plans: the Civil Service Superannuation Fund, the Teachers' Superannuation Fund and the M.L.A. Pension Fund, which are not part of the Consolidated Fund. Notes on these plans are provided below (see Note 3).

NOTES CONCERNING FINANCIAL STATEMENTS

	Balance Mar. 31/88	Additions	Principal Payment	Interest Payment	Balance Mar. 31/89
School Units					
Completed Contracts and Construction in Progress	48,269,766	7,981,481	490,448	4,869,298	55,760,799
Schools Other Capital Projects-					
School Repairs	983,835	271,900	189,716	99,450	1,066,019
Bus Depots	410,198	-	111,845	63,683	298,353
	49,663,799	8,253,381	792,009	5,032,431	57,125,171
Hospitals					
Queen Elizabeth	33,802,551	-	437,927	4,554,178	33,364,624
Prince County	1,012,745	-	294,978	112,716	717,767
Stewart Memorial	424,632	-	69,554	42,463	355,078
Souris	3,624,586	3,715,019	-	-	7,339,605
	38,864,514	3,715,019	802,459	4,709,357	41,777,074
Farm Center Association	167,270	-	10,543	16,576	156,727
	88,695,583	11,968,400	1,605,011	9,758,364	99,058,972

1. Capital Advances

The above statement details the accumulated capital advances as at March 31, 1989 made to agencies or entities for the construction of assets of a long term nature to which title rests with the third party agency or entity. The annual interest and principal payments required to retire these debts are included in the appropriations of the respective departments.

2. Crown Corporations

Profits and losses of Crown Corporations, Agencies and Boards which are not included in the Consolidated Statement in 1988-89 are: the P.E.I. Crop Insurance Agency which experienced a profit in 1988-89 of $1,309,498 (as at March 31, 1989 the Crop Insurance Agency has an accumulated deficit of $452,708); the P.E.I. Grain Elevators Corporation which experienced a loss in 1988-89 of $73,304; the Georgetown Shipyard which experienced a profit of $13,223 in 1988-89.

3. Pension Funds

(a) Civil Service Superannuation Fund

Employees of the Province and certain of its entities are entitled to receive pension benefits pursuant to the provisions of a pension plan under the Civil Service Superannuation Act. The plan is operated within the Civil Service Superannuation Fund to which employee and employer matching contributions and investment income are credited and payments to pensioners and terminating employees are charged. The Civil Service Superannuation Fund is invested in Federal, Provincial, Municipal and Corporate Securities.

The Civil Service Superannuation Fund is not part of the Consolidated Fund of the Province. The Plan is funded by employee contributions plus equal contributions by the Province. However, by Act the Province is committed to make payments if the Civil Service Superannuation Fund is insufficient to provide for pension payments as they become due.

Actuarial Valuations of the Civil Service Superannuation Fund are carried out periodically by actuaries retained by the Province using the accrued benefit method with salary projections. The results of the most recent Actuarial Valuation are as follows:

Valuation Date	-	April 1, 1987
Actuarial Liability	-	$142.5 Million
Fund Assets	-	$ 79.3 Million
Unfunded Liability	-	$ 63.2 Million

(b) Teachers' Superannuation Fund

The Teachers' Superannuation Act established a fund for the payment of pensions to retired teachers or refund of contributions under certain circumstances. The plan is operated within the Teacher's Superannuation Fund to which employee and employer matching contributions and investment income are credited and payments to pensioners and terminating employees are charged. The Teachers' Superannuation Fund is not part of the Consolidated Fund of the Province.

If at any time the fund is insufficient to make its payments, the Minister of Finance shall pay into the fund an amount, out of the Consolidated Fund, sufficient to enable such payments to be made.

Actuarial Valuations of the Teachers' Superannuation Fund are carried out periodically and provide an estimate of fund liabilities at a point in time. The results of the most recent Actuarial Valuation are as follows:

Valuation Date	-	July 1, 1987
Actuarial Liability	-	$184.4 million
Fund Assets	-	$ 55.5 million
Unfunded Liability	-	$128.9 million

(c) M.L.A. Pension Fund

The Legislative Assembly Retirement Allowance Act established a fund from which pensions are paid to retired members of the Legislative Assembly. The pension plan is partially funded within the M.L.A. Pension Fund to which contributions of Government and Members of the Legislative Assembly and investment income are credited and payments to pensioners are charged. The M.L.A. Pension Fund is not part of the Consolidated Fund of the Province.

Actuarial Valuations of the M.L.A. Pension Fund are carried out periodically and provide an estimate of fund liabilities at a point in time. The results of the most recent actuarial valuation are as follows:

Valuation Date	-	April 1, 1987
Actuarial Liability	-	$8.0 million
Fund Assets	-	$3.0 million
Unfunded Liability	-	$5.0 million